Executive Director's Report to the Board

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ENROLLMENT & BUDGET IMPACT

We are now two months into the school year, and with the October 1 MARSS reporting date behind us, we have our first reliable enrollment and funding data for FY27. In September, we shared our enrollment projections with the Board and noted that we expected to be below our budgeted enrollment. This report replaces those projections with actual figures and explains what they mean for our budget.

Each fall, this update is the point where the budget approved in the spring meets the reality of who has enrolled and stayed. The actual numbers confirm the direction we anticipated in September, though the gap between budgeted and actual enrollment is wider than we projected at that time. Joe Aliperto and I have updated a working budget accordingly, and the sections that follow describe where we stand, how we plan to meet our bond covenant, and what we will monitor as the year continues.

Our goal in sharing this now, and in this level of detail, is to give the Board and our community a clear and early picture of where our enrollment and budget stand this year. There is work ahead, and there is a path through it.

Revenue

State funding is based on average daily membership (ADM), which measures enrollment across the school year rather than on a single day, and on weighted ADM, which adjusts that figure by grade level. The budget approved last spring was built on an ADM of 1,020 and a weighted ADM of 1,100. Our actual ADM is 996.7, and our weighted ADM is 1,083.17. Weighted ADM drives most of our state revenue, so the difference of roughly 17 in weighted ADM flows directly to our bottom line.

We currently have 1,020 students enrolled, including 48 participating in PSEO. Because PSEO students are funded only for the portion of their time in Nova courses, our ADM sits below our headcount.

Most of the gap between budgeted and actual enrollment is in the upper grades. Before accounting for PSEO, tenth grade is 8 students below capacity, eleventh grade is 8 below, and twelfth grade is 11 below. Grades 6 through 9 are full, and in those grades we typically enroll above capacity, a practice referred to as overenrollment, to anticipate normal attrition during the year. This year, the number of overenrolled students is lower than we typically see at this point.

Budget Projection and Bond Covenant

Our working budget reflects actual enrollment, the actual wages and benefits of the staff we have hired, and the current revenue formula. It currently projects ending FY27 with a deficit of $187,000.

As the Board will recall from the bonding process for the expansion, our bond covenants, the financial terms we agreed to with our bondholders, changed. We are no longer required to finish the year with a surplus equal to 10 percent of our lease, which would have been approximately $180,000. Our covenant now requires that we finish each year with net income of $0 or better, and that is the target for this year's budget.

Nova continues to hold a healthy fund balance, which is over $5,000,000 and more than 33% of our annual expenses. Our focus this year is meeting our covenant. That fund balance is one-time money, however, and it is not a sustainable surce for recurring costs such as salaries and benefits. Because our covenant is measured on each year's net income, drawing on reserves would not count toward meeting it. Our long-term sustainability depends on enrollment that matches our budget.

Meeting the Covenant This Year

As the Board knows, we take a conservative approach to budgeting, and neither fundraising revenue nor a transfer from our community service fund (Fund 4) is factored into our working budget. Fundraising has historically generated about $150,000 annually. Last year, up to $55,000 of Fund 4 surplus could have been recovered by the general fund for costs it supports, and we anticipate a similar figure this year. Together, these would cover the deficit we are currently projecting and allow us to meet our covenant for FY27. As a result, our fundraising efforts this year, including Give to the Max Day and our Boosterthon campaign, are the most direct way we can prevent reductions in expenditures.

Given that, we do not believe it is necessary to make cuts at this time. That position rests on two conditions. If enrollment declines further during the school year, or if we are unable to refill these seats in future years, reductions will become necessary. We will monitor enrollment closely and notify the Board promptly if either condition changes.

What We Are Learning About Enrollment

Our strategic plan asked us to examine how new students are introduced to our model. Over the past two years, we have built a more comprehensive orientation that gives families a realistic picture of what a Nova education asks of students. That has led to fewer new enrollments, but it has also led to stronger retention through this point in the school year. We believe that is the right tradeoff. A family that chooses Nova with a clear understanding of the model is more likely to stay.

Exit surveys provide limited data, but the trends are consistent. The most common reasons families give for leaving are moving out of the area or seeking a specific extracurricular opportunity, such as hockey.

Closing the Enrollment Gap

In grades 10 through 12, where we have true openings, we are expanding our marketing efforts.

The leadership team is not recommending further action at this time. If the Board wishes to begin closing the gap before next fall, the most logical option would be to increase capacity at the semester, closer to our typical overenrollment levels, in grades with a waitlist such as 6 through 8. That would need to be done with careful attention to our ability to support new students in the middle of an academic year, both in their coursework and in their transition into our culture. If the Board would like to pursue that direction, we will work with staff to prepare a plan.

Our strongest enrollment strategy is retaining the students already here. Keeping the 1,020 students currently enrolled is the most effective step we can take for this year's budget and for next year's. That work happens in our classrooms and in our interactions with families, and it belongs to all of us.

Compensation and Benefits

The approved budget included approximately $125,000 in unallocated funds. In many years, unallocated funds like these have been used to cover increases to the employer

contribution to health care. Given this year's projection, we do not believe it is responsible to allocate these funds for that purpose. These funds were based on revenue from budgeted enrollment that has not materialized, and spending them would increase the deficit we are working to close.

Over the past several years, we have prioritized salary increases, directing as much as possible toward wages, and those increases have outpaced growth in state revenue. As we have discussed at prior meetings, the Board needs a longer-term conversation about whether continuing to maximize salaries remains the right approach, or whether a different balance between salaries and health care contributions would better serve our staff. That conversation should take place before the Board approves the FY28 budget.

Looking Ahead

We anticipate bringing a formal budget revision to the Board for approval in the coming months, which will codify the working budget described in this report.

This year asks for steady attention from all of us. I am confident in the path we have outlined and in the people who will carry it forward, and I will keep the Board informed as the year continues.

BLUE RIBBON COMMISSION

For the past 18 months, we have been monitoring the Blue Ribbon Commission on Special Education, which the state convened and tasked with identifying ways to reduce special education spending by $250,000,000 per biennium to help balance the state budget. The Commission has now released its final report and recommendations, which are intended to guide legislative action in the upcoming session. I have attached the full report. Of note:

- The Commission unanimously recommended that the Legislature not enact the reductions and repeal the automatic cut to special education cross-subsidy aid that takes effect if the $250,000,000 target is not met beginning July 1, 2027.
- It recommended eliminating the Special Education Charter Tuition Aid, which would place charter schools on the same tuition reimbursement as districts and reduce state spending by roughly $15 million over the biennium.
- It recommended moving ADSIS out of the special education formula into a standalone per-student allocation of $500 for 10% of a school's ADM, with a $20,000 minimum and $500,000 maximum.

- It recommended moving non-special education transportation, including transportation for students experiencing homelessness, into a separate funding stream capped at $60 million with a 60% reimbursement rate, while urging the Legislature not to enact this unless absolutely necessary.

It remains to be seen what, if anything, the Legislature will do with these recommendations. I have been in rooms where both Democratic and Republican legislators have spoken about the need to repeal the cuts the Commission was tasked with making. It is also worth noting that when the Commission recommends removing an item such as homeless transportation from the special education budget, that does not necessarily mean it would be removed from the state's overall budget. Funding could be shifted to another source rather than eliminated.

COMPENSATORY REVENUE TASK FORCE

We have also been watching the Compensatory Revenue Task Force. The Legislature set up this group in 2025. Its job was to study compensatory revenue, which is state money for students who are from behind in school. The rules for this money have changed a lot in the past few years. This school year, only students who are on programs like food aid or Medicaid count. The meal forms that families fill out no longer count. The group met 13 times over about a year. It has now shared its final report to help lawmakers in the next session. I have attached the full report. Here are the major recommendations:

- Use family income to decide which students bring in this money.
- Count students in three ways: food aid and Medicaid, the meal forms families fill out, and summer food aid forms. This would bring back the meal forms.
- Count students who get free meals and reduced-price meals the same. Right now, reduced-price students count as half.
- Average student counts over four years, starting in 2028. This would keep funding steadier from year to year.
- Give more money per student to schools with more students in poverty.
- Keep at least 70% of the money at the school that earned it. Right now it is 60% and had previously been 80%.
- Make no changes to how schools can spend the money, but ask each school to write a short yearly summary of how it uses it.

We do not know yet what lawmakers will do. The Blue Ribbon Commission was asked to save money. These ideas would cost the state more, and it is a budget year where we anticipate money will be tight. The task force listed what lawmakers should scale back first if they cannot pay for it all. It also warned against cutting the same amount from every school. Most ideas passed with almost everyone on the task force in favor. The one exception was giving more to higher-poverty schools. That passed 10 to 3, and both lawmakers in the group voted no.

Nova is one school building, so the 70% rule will not change much for us. The bigger change for us is that meal forms could count again. If that happens, the number of families who fill out the forms will affect our funding.

MN CLASSICAL EDUCATION CONFERENCE

The 10th Annual Minnesota Classical Education Conference was held on October 15, during our staff work day. Twenty-eight Nova staff members attended. The conference continues to be one of the best opportunities for our staff to learn alongside classical educators from across the state, and it is a credit to Nova that so many of our own people help make it happen.

A special thanks goes to the Nova staff who contributed to the conference. Dr. Johnson serves on the Conference Planning Committee, and three Nova staff members presented sessions. Dr. Paul Warden presented "Casting a Wider Net: Pursuing Virtue Prior to Ancient Greece." Sarah Brown presented "Aristotle's Table of Means: A Virtue Primer." Becky Lund presented "Spilling the Tea: Adding Drama to Any Lesson." Each of these sessions reflects the kind of thoughtful work our staff do in their classrooms every day, and it was good to see that work shared with a wider audience.

This year's keynote was delivered by Dr. Angel Adams Parham, titled "Who Are We? A Contemplation of Life, Liberty, and Happiness." Drawing on the Declaration of Independence and the texts that shaped its thinking, she invited educators to consider how these ideas have been understood over time and what they ask of us today. It was a fitting address for classical educators, whose work centers on reading great texts closely and helping students wrestle with the questions they raise.